

## 1. GENERAL

The Company is a public listed company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 35.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and certain leasehold land and buildings.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

### **Goodwill**

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is eliminated against reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration is credited to reserves.

On disposal of a subsidiary, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

### **Investment in subsidiaries**

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investment in subsidiaries is included in the Company's balance sheet at cost, as reduced by any decline in value of the subsidiary that is other than temporary.

### **Turnover**

Turnover represents the amounts received and receivable for goods supplied to outside customers, less returns and discounts during the year.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Rental income, including rentals invoiced in advance from properties let under operating leases, are recognised on a straight line basis over the term of the relevant lease.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the Group's right to receive payment has been established.

Commission income is recognised on an accrual basis when the Group's entitlement to payments has been established.

### Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market values based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation or amortisation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

### Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation and amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Property, plant and equipment (Continued)**

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Certain of the Group's leasehold land and buildings were revalued at 31st December, 1994. The surplus arising on revaluation of properties was credited to asset revaluation reserve. The Group has adopted the transitional relief provided by paragraph 72 of Statement of Standard Accounting Practice No. 17 "Property, plant and equipment" issued by the Hong Kong Society of Accountants from the requirement to make revaluations on a regular basis of the Group's leasehold properties and, accordingly, no further revaluation of these properties will be carried out. Any future impairment losses recognised in respect of these properties will be charged to the consolidated income statement to the extent that it exceeds the surplus, if any, held in asset revaluation reserve relating to previous revaluations of the particular property.

Depreciation and amortisation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives using the straight line method, at the following rates per annum:

Land held on long and medium term leases	Over the term of the relevant lease
Buildings	Over the shorter of the term of the lease, or 25 years
Leasehold improvements	Over the term of the relevant lease
Others	20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

**Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities or other investments.

Investment securities, which are securities held for an identified long term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the original outstanding principal at the inception of the leases, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rental expenses and income are charged and credited, respectively, to the income statement on a straight line basis over the term of the relevant lease.

### Club membership

Club membership is stated at cost, as reduced by any impairment loss that is other than temporary, as considered necessary by the directors.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method for electronic products and the weighted average cost method for other inventories. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### Retirement benefits schemes

Contributions payable by the Group to its defined contribution retirement benefits schemes are charged to the income statement.

### Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

## Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

## Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advances.

## 3. SEGMENTAL INFORMATION

## Business segments

	Turnover		Segment results	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Manufacture and distribution of electronic products	1,047,107	650,159	35,646	17,537
Distribution of sports products	63,445	62,830	5,626	2,951
Distribution and retailing of fashion apparel, leather goods and accessories	1,185	15,803	(5,862)	(8,079)
	<b>1,111,737</b>	<b>728,792</b>	<b>35,410</b>	<b>12,409</b>
Net investment income			5,231	4,683
Unallocated corporate income			2,924	8,421
Unallocated corporate expense			(8,662)	(7,094)
Profit from operations			<b>34,903</b>	<b>18,419</b>

For the year ended 31st December, 2000

## 3. SEGMENTAL INFORMATION (Continued)

## Geographical segments

	Turnover		Segment results	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	735,891	550,982	20,533	16,106
People's Republic of China (the "PRC")	274,388	99,301	9,818	3,507
Taiwan	41,154	24,312	1,094	722
Republic of Singapore	830	22,343	24	(9,492)
Others	59,474	31,854	3,941	1,566
	<b>1,111,737</b>	<b>728,792</b>	<b>35,410</b>	<b>12,409</b>
Net investment income			5,231	4,683
Unallocated corporate income			2,924	8,421
Unallocated corporate expense			(8,662)	(7,094)
Profit from operations			<b>34,903</b>	<b>18,419</b>

## 4. NET INVESTMENT INCOME

	2000	1999
	HK\$'000	HK\$'000
Dividend income from unlisted investment securities	248	240
Interest income	4,989	4,446
Loss on disposal of other investments	(6)	(3)
	<b>5,231</b>	<b>4,683</b>

## 5. PROFIT FROM OPERATIONS

	2000 HK\$'000	1999 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Staff costs, including directors' remuneration		
— basic salaries and allowances	28,595	31,042
— retirement benefits scheme contributions, net of forfeited contributions of HK\$157,000 (1999: HK\$137,000)	586	741
	<b>29,181</b>	<b>31,783</b>
Auditors' remuneration	603	626
Depreciation and amortisation		
— owned assets	10,216	10,736
— assets held under finance leases	793	1,430
Loss on disposal of property, plant and equipment	—	3,442
Rentals payable in respect of premises under operating leases	2,565	4,836
Gain on disposal of property, plant and equipment	(34)	—
Rental income from properties, net of outgoings of HK\$67,000 (1999: HK\$93,000)	(1,550)	(2,367)

## 6. FINANCE COSTS

	2000 HK\$'000	1999 HK\$'000
Interest on:		
— bank and other borrowings wholly repayable within five years	16,912	13,815
— bank borrowings not wholly repayable within five years	322	646
— obligations under finance leases	73	158
	<b>17,307</b>	<b>14,619</b>

## 7. DIRECTORS' AND EMPLOYEES' REMUNERATIONS

Particulars of the directors' and the five highest paid employees' remunerations were as follows:

## (a) Directors' remunerations

	2000 HK\$'000	1999 HK\$'000
Directors' fees:		
Executive directors	—	—
Non-executive director	—	—
Independent non-executive directors	340	102
Other emoluments:		
Executive directors		
— basic salaries and allowances	6,154	4,576
— bonus	—	51
— retirement benefits scheme contributions	49	19
	<b>6,543</b>	<b>4,748</b>

The directors' remunerations were within the following bands:

	Number of directors	
	2000	1999
Nil to HK\$1,000,000	7	8
HK\$1,500,001 to HK\$2,000,000	1	2
HK\$3,000,001 to HK\$3,500,000	1	—

## (b) Employees' remunerations

Of the five highest paid individuals in the Group, three (1999: three) are directors of the Company whose remunerations are set out in (a) above. The remunerations of the remaining two individuals (1999: two) were as follows:

	2000 HK\$'000	1999 HK\$'000
Basic salaries and allowances	1,278	1,051
Retirement benefits scheme contributions	69	50
	<b>1,347</b>	<b>1,101</b>

The remunerations of each of the employees was under HK\$1,000,000.

During the years ended 31st December, 2000 and 1999, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the years ended 31st December, 2000 and 1999, no directors waived any emoluments.



**8. TAXATION**

	2000 HK\$'000	1999 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Current year	2,244	1,295
Underprovision in prior year	155	181
Tax refund	—	(128)
Taxation outside Hong Kong	26	26
	2,425	1,374
Deferred taxation (note 25)	(476)	1,468
	1,949	2,842

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the year.

Tax refund for the year ended 31st December, 1999 represented the amount refunded by the Hong Kong Inland Revenue Department for the year of assessment 1997/1998.

Taxation outside Hong Kong is calculated at the rates prevailing in the relevant jurisdictions.

Details of deferred taxation are set out in note 25.

**9. PROFIT FOR THE YEAR**

Of the Group's profit for the year of HK\$14,064,000 (1999: HK\$197,000), a loss of HK\$39,153,000 (1999: HK\$40,903,000) has been dealt with in the financial statements of the Company.

For the year ended 31st December, 2000

**10. EARNINGS PER SHARE**

The calculation of the basic and diluted earnings per share for the year is based on the following data:

	2000 HK\$'000	1999 HK\$'000
Earnings:		
Profit for the year and earnings for the purposes of basic and diluted earnings per share	14,064	197
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	205,649,092	108,219,065
Effect of dilutive potential ordinary shares:		
Convertible preference shares	8,797,814	
Share options	2,842,084	
Weighted average number of ordinary shares for the purposes of diluted earnings per share	217,288,990	

No diluted earnings per share for the year ended 31st December, 1999 is presented as the exercise prices of the Company's share options were higher than the average market price for shares.

**11. INVESTMENT PROPERTIES**

	THE GROUP HK\$'000
VALUATION	
At 1st January, 2000 and at 31st December, 2000	60,000

At 31st December, 2000, the investment properties of the Group were revalued by an independent firm of professional property valuers, Chesterton Petty Limited, on an open market value existing use basis at HK\$60,000,000. The revaluation did not give rise to any surplus or deficit.

The investment properties are held under medium term leases in Hong Kong.

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## 12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles and vessel HK\$'000	Total HK\$'000
<b>THE GROUP</b>							
COST OR VALUATION							
At 1st January, 2000	76,658	9,256	17,188	9,005	10,031	10,575	132,713
Acquisition of a subsidiary	—	—	—	—	—	1,438	1,438
Additions	3,101	3,643	2,037	807	1,230	1,411	12,229
Disposals	—	—	(659)	(4)	(10)	(70)	(743)
At 31st December, 2000	79,759	12,899	18,566	9,808	11,251	13,354	145,637
Comprising:							
At cost	34,409	12,899	18,566	9,808	11,251	13,354	100,287
At valuation — 1994	45,350	—	—	—	—	—	45,350
	79,759	12,899	18,566	9,808	11,251	13,354	145,637
DEPRECIATION AND AMORTISATION							
At 1st January, 2000	10,216	5,541	10,377	5,466	5,209	4,595	41,404
Acquisition of a subsidiary	—	—	—	—	—	1,150	1,150
Provided for the year	1,864	1,630	2,836	1,329	1,384	1,966	11,009
Eliminated on disposals	—	—	(315)	—	—	(70)	(385)
At 31st December, 2000	12,080	7,171	12,898	6,795	6,593	7,641	53,178
NET BOOK VALUES							
At 31st December, 2000	67,679	5,728	5,668	3,013	4,658	5,713	92,459
At 31st December, 1999	66,442	3,715	6,811	3,539	4,822	5,980	91,309

The net book value of leasehold land and buildings held by the Group at the balance sheet date comprises:

	2000 HK\$'000	1999 HK\$'000
Held in Hong Kong under medium term leases	58,475	60,202
Held in the PRC under long leases	9,204	6,240
	<b>67,679</b>	66,442

If leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation and amortisation at HK\$52,532,000 (1999: HK\$51,295,000).

At 31st December, 1999, the net book value of property, plant and equipment included an amount of HK\$4,760,000 in respect of assets held under finance leases. There were no assets held under finance leases at 31st December, 2000.

For the year ended 31st December, 2000

## 13. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares (Note)	92,577	92,577
Amounts due from subsidiaries	427,571	353,440
	520,148	446,017
Less: Provision for diminution in value	(130,000)	(92,000)
	390,148	354,017

Note: The carrying value of the unlisted shares is based on the underlying net tangible assets of the subsidiaries at the time when they became members of the Group pursuant to the group reorganisation in 1994.

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date and are therefore shown in the balance sheet as non-current.

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

Particulars of the Company's subsidiaries at 31st December, 2000 are set out in note 35.

## 14. INVESTMENT SECURITIES

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares, at cost		
Hong Kong	1,103	503
Overseas	—	5,804
Listed shares in overseas, at cost	7,319	—
	8,422	6,307
Market value of listed shares	10,377	—

The directors are of an opinion that the unlisted investments are worth at least their carrying values and no provision is required.

For the year ended 31st December, 2000

#### 15. LOAN TO AN INVESTEE

The loan to an investee of the Group is unsecured, non-interest bearing and has no fixed terms of repayment. The amount is advanced to an investee which is engaged in property re-development in Hong Kong.

In the opinion of the directors, the amount will not be repayable within twelve months of the balance sheet date and, accordingly, is classified as non-current.

#### 16. CLUB MEMBERSHIPS

	THE GROUP 2000 & 1999 HK\$'000
Club memberships, at cost	
Hong Kong	1,447
Overseas	2,510
	3,957

The directors are of the opinion that the club memberships are worth at least their carrying values and no provision is required.

#### 17. INVENTORIES

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Raw materials	20,537	23,127
Work in progress	12,753	9,673
Finished goods	121,940	78,275
	155,230	111,075

Included above are raw materials of HK\$203,000 (1999: HK\$283,000), work in progress of HK\$426,000 (1999: Nil) and finished goods of HK\$13,441,000 (1999: HK\$10,437,000), which are carried at net realisable value.

**18. TRADE AND OTHER RECEIVABLES**

The Group has a policy of allowing a credit period ranging from 30 days to 120 days to its trade customers.

Included in trade and other receivables are trade receivables of HK\$333,362,000 (1999: HK\$249,132,000) and their aging analysis is as follows:

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Within 30 days	86,337	65,187
More than 30 days and within 60 days	45,017	27,456
More than 60 days and within 90 days	49,652	14,987
More than 90 days	152,356	141,502
	<b>333,362</b>	<b>249,132</b>

**19. TRADE AND OTHER PAYABLES**

Included in trade and other payables are trade payables of HK\$117,899,000 (1999: HK\$102,915,000) and their aging analysis is as follows:

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Within 30 days	63,973	41,427
More than 30 days and within 60 days	31,421	24,401
More than 60 days and within 90 days	11,345	15,391
More than 90 days	11,160	21,696
	<b>117,899</b>	<b>102,915</b>

## 20. BANK AND OTHER BORROWINGS

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Bank and other borrowings comprise:		
Bank loans	44,359	32,951
Bank import loans	140,024	134,152
Bank overdrafts	39,362	30,276
Other loan	2,000	2,500
	<b>225,745</b>	<b>199,879</b>
Analysed as:		
Secured	176,354	158,604
Unsecured	49,391	41,275
	<b>225,745</b>	<b>199,879</b>
The bank and other borrowings are repayable as follows:		
Within one year or on demand	220,608	186,771
More than one year, but not exceeding two years	1,439	7,463
More than two years, but not exceeding five years	2,714	2,221
More than five years	984	3,424
	<b>225,745</b>	<b>199,879</b>
Less: Amount due within one year, and shown under current liabilities	<b>(220,608)</b>	<b>(186,771)</b>
Amount due after one year	<b>5,137</b>	<b>13,108</b>

## 21. SHARE CAPITAL

	Number of ordinary shares	Value HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1st January, 1999 and 31st December, 1999	1,500,000,000	150,000
Reclassified to non-redeemable convertible preference shares	(46,000,000)	(4,600)
At 31st December, 2000	1,454,000,000	145,400
Issued and fully paid:		
At 1st January, 1999	89,498,720	8,950
Issue of shares	38,898,000	3,890
At 31st December, 1999	128,396,720	12,840
Issue of shares	55,600,000	5,560
Exercise of share options	5,900,000	590
Conversion of convertible preference shares	46,000,000	4,600
Share repurchased and cancelled	(5,756,000)	(576)
At 31st December, 2000	230,140,720	23,014
	Number of non-redeemable convertible preference shares	Value HK\$'000
Non-redeemable convertible preference shares of HK\$0.10 each		
Authorised:		
Reclassified from ordinary shares and balance at 31st December, 2000	46,000,000	4,600
Issued and fully paid:		
Issue of shares	46,000,000	4,600
Converted to ordinary shares	(46,000,000)	(4,600)
At 31st December, 2000	—	—



**21. SHARE CAPITAL (Continued)**

During the year, the following changes in the share capital of the Company took place:

- (i) On 14th January, 2000, arrangements were made for a private placement to independent private investors of 25,000,000 shares of HK\$0.10 each in the Company held by Unimicro Limited ("Unimicro"), a substantial shareholder of the Company, at a price of HK\$0.60 per share representing a discount of approximately 13% to the closing market price of the Company's shares on 14th January, 2000.

Pursuant to a subscription agreement of the same date, Unimicro subscribed for 25,000,000 new shares of HK\$0.10 each in the Company at a price of HK\$0.60 per share. The proceeds were to be used to finance the expansion of existing production plant. These new shares were issued under the general mandate granted to the directors at a special general meeting of the Company held on 11th January, 2000 and rank pari passu with other shares in issue in all respects.

- (ii) On 17th February, 2000, arrangements were made for another private placement to independent private investors of 30,600,000 shares of HK\$0.10 each in the Company held by Unimicro, at a price of HK\$1.20 per share representing a discount of approximately 23.57% to the closing market price of the Company's shares on 16th February, 2000.

Pursuant to a subscription agreement of the same date, Unimicro subscribed for 30,600,000 new shares of HK\$0.10 each in the Company at a price of HK\$1.20 per share. The proceeds were to be used to finance the development of the Group's e-commerce and internet related business. These new shares were issued under the general mandate granted to the directors at a special general meeting of the Company held on 11th February, 2000 and rank pari passu with other shares in issue in all respects.

- (iii) Pursuant to an ordinary resolution passed at a special general meeting held on 7th April, 2000:
- the authorised share capital of the Company was reclassified into two classes of shares consisting of 1,454,000,000 ordinary shares of HK\$0.10 each and 46,000,000 non-redeemable convertible preference shares of HK\$0.10 each.
  - the Company issued 46,000,000 non-redeemable convertible preference shares of HK\$0.10 each in the Company at a conversion price of HK\$0.80 per share to Foxconn Holding Limited ("Foxconn") pursuant to a subscription agreement entered into with Foxconn on 25th February, 2000 for a total cash consideration of HK\$36,800,000. The proceeds were to be used for the development of "business to business" internet portals for trading of electronic components and products.

- (iv) On 15th June, 2000, Foxconn exercised in full its conversion right attaching to the non-redeemable convertible preference shares to convert the convertible preference shares into 46,000,000 ordinary shares of HK\$0.10 each.

- (v) During the year, 900,000 and 5,000,000 share options were exercised at a subscription price of HK\$0.48 and HK\$0.54 per share, respectively, resulting in the issue of 5,900,000 ordinary shares of HK\$0.10 each in the Company.

**21. SHARE CAPITAL (Continued)**

- (vi) During the year, the Company repurchased certain of its own shares on the Stock Exchange pursuant to the Company's general mandate granted to the directors of the Company passed at the annual general meeting of the Company held on 27th June, 2000.

Details regarding the shares repurchased are summarised as follows:

Month	Number of ordinary shares repurchased	Price per share		Aggregate price paid HK\$'000
		Highest HK\$	Lowest HK\$	
September 2000	1,140,000	0.68	0.55	669
October 2000	1,464,000	0.74	0.43	811
November 2000	1,866,000	0.66	0.44	1,009
December 2000	1,286,000	0.65	0.50	733
	<u>5,756,000</u>			<u>3,222</u>

The repurchased shares were subsequently cancelled upon repurchase and accordingly, the issued share capital of the Company was diminished by the nominal value thereof. The premium payable on repurchase was charged against the share premium account and an amount equivalent to the nominal value of the shares cancelled was transferred from accumulated profits to the capital redemption reserve account as set out in note 23.

**22. SHARE OPTION SCHEME**

Pursuant to the Share Option Scheme (the "Scheme") adopted by the Company on 17th September, 1994, the board of directors of the Company may, at their discretion, grant options to directors or employees of the Company or any of its subsidiaries to subscribe for shares in the Company in accordance with the Scheme.

The subscription price of the options shall be a price to be determined by the directors of the Company being not less than the nominal value of the ordinary shares nor 80% of the average closing price of the ordinary shares of the Company for the five trading days immediately preceding the date of the offer of the options.

The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time.

## 22. SHARE OPTION SCHEME (Continued)

The movements of share options granted by the Company to the directors and employees of the Company and its subsidiaries to subscribe for shares in the Company during the year were as follows:

Exercisable period	Exercise price per share HK\$	Number of share options				Outstanding at 31.12.2000
		Outstanding at 1.1.2000	Granted during the year	Exercised during the year	Lapsed during the year	
30.8.1997 — 29.8.2000	7.70	114,000	—	—	(114,000)	—
30.3.1998 — 29.3.2001	5.90	90,000	—	—	—	90,000
5.3.1999 — 4.3.2002	2.50	80,000	—	—	—	80,000
29.9.1997 — 16.9.2004	3.80	2,500,000	—	—	—	2,500,000
18.10.1997 — 17.10.2000	2.80	30,000	—	—	(30,000)	—
4.6.1999 — 3.6.2001	0.48	400,000	—	—	—	400,000
21.1.2000 — 20.1.2001	0.47	—	2,200,000	—	—	2,200,000
24.1.2000 — 23.1.2001	0.48	—	2,200,000	(900,000)	—	1,300,000
1.2.2000 — 31.1.2001	0.54	—	5,000,000	(5,000,000)	—	—
1.2.2000 — 31.1.2001	0.61	—	2,500,000	—	—	2,500,000
4.5.2002 — 3.5.2004	0.59	—	200,000	—	—	200,000
17.6.2002 — 16.6.2004	0.57	—	700,000	—	(200,000)	500,000
20.6.2000 — 19.6.2002	0.57	—	3,200,000	—	—	3,200,000
22.6.2000 — 21.6.2002	0.57	—	2,000,000	—	—	2,000,000
		3,214,000	18,000,000	(5,900,000)	(344,000)	14,970,000

No consideration has been received by the Company for share options granted during the year.

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## 23. RESERVES

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Asset revaluation reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits (losses) HK\$'000	Total HK\$'000
<b>THE GROUP</b>								
At 1st January, 1999	147,201	533	(45,835)	70,510	29,271	(980)	12,021	212,721
Exchange differences arising on translation of overseas operations	—	—	—	—	—	113	—	113
Premium arising on issue of shares	14,423	—	—	—	—	—	—	14,423
Expenses incurred in connection with the issue of shares	(347)	—	—	—	—	—	—	(347)
Profit for the year	—	—	—	—	—	—	197	197
At 31st December, 1999	161,277	533	(45,835)	70,510	29,271	(867)	12,218	227,107
Exchange differences arising on translation of overseas operations	—	—	—	—	—	(521)	—	(521)
Premium arising on issue of shares	80,902	—	—	—	—	—	—	80,902
Expenses incurred in connection with the issue of shares	(1,652)	—	—	—	—	—	—	(1,652)
Share repurchased and cancelled: Premium on shares repurchased	(2,646)	—	—	—	—	—	—	(2,646)
Transfer	—	576	—	—	—	—	(576)	—
Goodwill arising on acquisition of a subsidiary	—	—	(1,218)	—	—	—	—	(1,218)
Profit for the year	—	—	—	—	—	—	14,064	14,064
At 31st December, 2000	237,881	1,109	(47,053)	70,510	29,271	(1,388)	25,706	316,036
<b>THE COMPANY</b>								
At 1st January, 1999	147,201	533	—	162,787	—	—	(41,557)	268,964
Premium arising on issue of shares	14,423	—	—	—	—	—	—	14,423
Expenses incurred in connection with the issue of shares	(347)	—	—	—	—	—	—	(347)
Loss for the year	—	—	—	—	—	—	(40,903)	(40,903)
At 31st December, 1999	161,277	533	—	162,787	—	—	(82,460)	242,137
Premium arising on issue of shares	80,902	—	—	—	—	—	—	80,902
Expenses incurred in connection with the issue of shares	(1,652)	—	—	—	—	—	—	(1,652)
Share repurchased and cancelled: Premium on shares repurchased	(2,646)	—	—	—	—	—	—	(2,646)
Transfer	—	576	—	—	—	—	(576)	—
Loss for the year	—	—	—	—	—	—	(39,153)	(39,153)
At 31st December, 2000	237,881	1,109	—	162,787	—	—	(122,189)	279,588

**23. RESERVES (Continued)**

At 31st December, 2000, the asset revaluation reserve includes an amount of HK\$10,582,000 (1999: HK\$10,582,000) which relates to a property previously held as a leasehold property and reclassified as an investment property in 1997. The amount is frozen upon the transfer to an investment property until the disposal or retirement of the related asset. On the disposal or retirement of the asset, the frozen revaluation reserve will be transferred directly to accumulated profits.

The contributed surplus of the Company represents:

- (i) the difference between the consolidated shareholders' funds of subsidiaries when they were acquired by the Company and the nominal value of the Company's shares issued for the acquisition; and
- (ii) the credit arising from the reduction of nominal value of the consolidated shares from HK\$1.00 each to HK\$0.10 each by cancelling HK\$0.90 paid up on each issued share, after a transfer of HK\$10,565,000 towards the elimination of the deficit of the Company as at 31st December, 1997.

The contributed surplus of the Group represents the credit arising from the reduction of nominal value of the consolidated shares from HK\$1.00 each to HK\$0.10 each by cancelling HK\$0.90 paid up on each issued share, after a transfer of HK\$10,565,000 towards the elimination of the deficit of the Company as at 31st December, 1997.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, as at the balance sheet date, the Company's reserves available for distribution to shareholders are as follows:

	2000 HK\$'000	1999 HK\$'000
Contributed surplus	162,787	162,787
Less: Accumulated losses	(122,189)	(82,460)
	<b>40,598</b>	<b>80,327</b>

**24. AMOUNTS DUE TO SUBSIDIARIES**

The amounts due to subsidiaries of the Company are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repaid within twelve months from the balance sheet date and are therefore shown in the balance sheet as non-current.

## 25. DEFERRED TAXATION

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Balance at 1st January	1,719	251
(Credit) charge for the year (note 8)	(476)	1,468
Balance at 31st December	1,243	1,719

The components of the deferred tax liability (asset) recognised and the net potential deferred taxation unrecognised of the Group are as follows:

	Liability provided		Net potential assets	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Tax effect of timing differences attributable to:				
Excess (shortfall) of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements	2,036	2,898	(1,748)	(2,656)
Taxation losses	(793)	(1,179)	(9,715)	(6,632)
	1,243	1,719	(11,463)	(9,288)

The deferred tax asset has not been recognised in the financial statements as the realisation of this asset in the foreseeable future is uncertain.

The components of the deferred taxation credit of the Group not recognised in the financial statements for the year are as follows:

	2000	1999
	HK\$'000	HK\$'000
Tax effect of timing differences attributable to:		
Excess (shortfall) of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements	908	(3,391)
Taxation losses arising	(3,083)	(74)
	(2,175)	(3,465)

Deferred taxation has not been provided on the valuation surplus arising on the valuation of properties in Hong Kong as profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the valuation does not constitute a timing difference for tax purposes.

The Company had no significant unprovided deferred taxation during the year or at the balance sheet date.

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## 26. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2000 HK\$'000	1999 HK\$'000
Profit before taxation	17,596	3,800
Interest income	(4,989)	(4,446)
Rental income	(1,617)	(2,460)
Dividend income	(248)	(240)
Interest expenses	17,307	14,619
Depreciation and amortisation	11,009	12,166
(Gain) loss on disposal of property, plant and equipment	(34)	3,442
Loss on disposal of other investments	6	3
Increase in inventories	(44,155)	(16,314)
Increase in trade and other receivables	(88,987)	(26,452)
Increase in trade and other payables	16,475	13,697
Increase (decrease) in bills payable	13,630	(8,230)
Decrease in amounts due to related companies	(3,174)	(619)
Net cash outflow from operating activities	<u>(67,181)</u>	<u>(11,034)</u>

## 27. ACQUISITION OF A SUBSIDIARY

	2000 HK\$'000	1999 HK\$'000
Net assets acquired:		
Property, plant and equipment	288	—
Trade and other payables	(6)	—
	282	—
Goodwill arising on acquisition of a subsidiary	1,218	—
	<u>1,500</u>	<u>—</u>
Satisfied by:		
Cash consideration paid	<u>1,500</u>	<u>—</u>

The subsidiary acquired during the year did not have any significant impact on the Group's cash flows, turnover and operating results.

## 28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium HK\$'000	Obligations under finance leases HK\$'000	Bank and other borrowings (excluding overdrafts) HK\$'000
At 1st January, 1999	156,151	1,884	148,294
Proceeds from issue of shares	18,313	—	—
Expenses incurred in connection with the issue of shares	(347)	—	—
Borrowings raised	—	—	21,309
Repayment	—	(1,284)	—
At 31st December, 1999	174,117	600	169,603
Proceeds from issue of shares	91,652	—	—
Expenses incurred in connection with the issue of shares	(1,652)	—	—
Repurchase of shares	(3,222)	—	—
Borrowings raised	—	—	16,780
Repayment	—	(600)	—
At 31st December, 2000	260,895	—	186,383

## 29. RETIREMENT BENEFITS SCHEME

The Group operates defined contribution retirement benefits schemes for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of trustees.

The retirement benefits cost charged to income statement represents contributions payable to the fund by the Group at rates specified in the rules of the schemes. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At 31st December, 2000, the total amount of forfeited contributions, which arose upon employees leaving the retirement benefits schemes and which are available to reduce the contributions payable in future years, was approximately HK\$154,000 (1999: HK\$79,000).

With effective from 1st December, 2000, the Group has jointed a Mandatory Provident Fund scheme ("MPF Scheme"). The MPF scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in th rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The retirement benefit scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the schemes.



## 30. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Guarantees given to bankers in respect of banking facilities utilised by				
— an investee	6,140	8,129	6,140	8,129
— subsidiaries	—	—	209,867	197,878
	<b>6,140</b>	<b>8,129</b>	<b>216,007</b>	<b>206,007</b>
Bills discounted with recourse	740	277	—	—

## 31. PLEDGE OF ASSETS

At 31st December, 2000, the following assets were pledged by the Group to banks in order to secure general banking facilities granted by these banks to the Group:

- investment properties and leasehold land and buildings with net book values of HK\$60,000,000 (1999: HK\$60,000,000) and HK\$64,583,000 (1999: HK\$66,442,000), respectively;
- short term bank deposits of HK\$25,913,000 (1999: HK\$493,000);
- trade receivables of certain subsidiaries of HK\$35,804,000 (1999: Nil); and
- all assets of certain subsidiaries with aggregate value of HK\$124,748,000 (1999: HK\$89,178,000).

At 31st December, 1999, investment securities of HK\$5,804,000 was pledged to banks for general banking facilities granted to the Group.

At 31st December, 2000, the Company had pledged a bank deposit of HK\$20,764,000 (1999: Nil) to a bank to secure general banking facilities granted by the bank to the Company.

## 32. CAPITAL COMMITMENTS

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
— acquisition of certain property interests	—	1,547
— acquisition of other property, plant and equipment	4,272	—
	<b>4,272</b>	<b>1,547</b>

The Company had no capital commitment at the balance sheet date.

**33. OPERATING LEASE COMMITMENTS**

At the balance sheet date, the Group had certain commitments payable within the next year under non-cancellable operating leases for land and buildings as follows:

	2000 HK\$'000	1999 HK\$'000
Operating leases which expire:		
Within one year	434	47
In the second to fifth year inclusive	1,884	1,039
	<b>2,318</b>	<b>1,086</b>

The Company had no operating lease commitment at the balance sheet date.

**34. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES**

The Group entered into the following transactions during the year and has balances at the balance sheet date with related parties in which certain directors of the Company have beneficial interests:

**(I) Transactions**

Name of party	Interested director	Nature of transactions	2000 HK\$'000	1999 HK\$'000
Varitronix International Limited and its subsidiaries	Chang Chu Cheng	Purchases of electronic products (note i)	7,771	11,460
		Sales of electronic products (note i)	3,648	1,571
		Rental expenses paid by the Group (note ii)	491	86
United Dynamic Limited	Yim Yuk Lun, Stanley	Rental expenses paid by the Group (note ii)	352	288
Hon Hai Precision Industry Co., Ltd. (note iii)	—	Purchases of electronic products (note i)	8,317	—
		Sales of electronic products (note i)	15,375	—

## 34. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

## (II) Balances

	2000	1999
	HK\$'000	HK\$'000
Trade payables to:		
<b>Name of party</b>		
Varitronix International Limited	4,885	11,489
Hon Hai Precision Industry Co., Ltd.	3,430	—
	<b>8,315</b>	<b>11,489</b>

In addition, the Company had given guarantees outstanding at 31st December, 2000 amounting to HK\$30,088,000 (1999: HK\$23,860,000) to certain banks in respect of banking facilities granted by the banks to RDL Electronic Company Limited ("RDL") which is 70% owned by the Group. The guarantees given by the Group were the only financial assistance given by RDL's shareholders to RDL.

As at 31st December, 2000, Mr. Yim Yuk Lun, Stanley and Mr. Chau Ding Kong, Alan have given guarantees to a bank in respect of banking facilities granted by the bank to a subsidiary amounting to HK\$10,500,000 (1999: HK\$10,500,000).

## Notes:

- i. The transactions were carried out at market price or, where no market price was available, at terms determined and agreed by both parties.
- ii. The rentals were charged with reference to market value.
- iii. The company is a substantial shareholder of the Company.

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## 35. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31st December, 2000 are as follows:

Name of subsidiary	Place of incorporation/ registration/ operations	Nominal value of issued and paid up share capital/ registered capital	Proportion of issued share capital/ registered capital held by the Group %	Principal activities
Bold Technology Limited	British Virgin Islands	Ordinary US\$10	60	Investment holdings
(東莞龍向電子制品有限公司) (Dongguan Dragon State Electronic Products Company Limited)	PRC	Registered capital HK\$5,000,000	75	Manufacturing of electronic products
Dragon Branch Investment Limited	Hong Kong	Ordinary HK\$100 Non-voting deferred* HK\$1,000,000	100 100	Inactive
Dragon Right Investment Limited	Hong Kong	Ordinary HK\$100 Non-voting deferred* HK\$1,000,000	100 100	Inactive
Dragon State Limited	Hong Kong	Ordinary HK\$500,000	100	Manufacture and trading of electronic products
Dragon Trading Limited	British Virgin Islands	Ordinary US\$40,000	100	Investment holding
Dragon Well Enterprises Limited	Hong Kong	Ordinary HK\$1,000,000	100	Inactive
Dragon Will Limited	Hong Kong	Ordinary HK\$100 Non-voting deferred* HK\$1,000,000	100 100	Inactive
Grant Square Investment Limited	Hong Kong	Ordinary HK\$10,000	100	Holding a motor vehicle

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## 35. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration/ operations	Nominal value of issued and paid up share capital/ registered capital	Proportion of issued share capital/ registered capital held by the Company %	Principal activities
Green Classic Investment Limited	Hong Kong	Ordinary HK\$2	100	Investment holding
Golf Specialists Pacific Limited	Hong Kong	Ordinary HK\$4	100	Trading of golf products
Likeson Limited	British Virgin Islands	Ordinary US\$2	100	Investment holding
Manfield Venture Corporation	British Virgin Islands	Ordinary US\$1	100	Investment holding
RDL (China) Development Company Limited	Hong Kong	Ordinary HK\$2	70	Trading of electronic products
RDL Electronic Company Limited	Hong Kong	Ordinary HK\$5,000,000	70	Trading of electronic products
S.A.S. (China) Development Company Limited	Hong Kong	Ordinary HK\$1,000,000	100	Trading of electronic products
S.A.S. Electronic Company Limited	Hong Kong	Ordinary HK\$1,000,000	100	Distribution of electronic products
S.A.S. Enterprises Company Limited (formerly known as Income Challenge Limited)	Hong Kong	Ordinary HK\$100 Non-voting deferred* HK\$1,000,000	100 100	Distribution of fashion apparel, leather goods and accessories and electronic products

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## 35. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration/ operations	Nominal value of issued and paid up share capital/ registered capital	Proportion of issued share capital/ registered capital held by the Company %	Principal activities
S.A.S. Investment Company Limited	Hong Kong	Ordinary HK\$100 Non-voting deferred* HK\$1,000,000	100 100	Property and investment holding
S.A.S. Telecommunications Company Limited	British Virgin Islands	Ordinary US\$1	100	Investment holding
Seika Handbag & Leather Ware Singapore Pte. Limited	Republic of Singapore	Ordinary S\$100,000	100	Inactive
Sportline Limited	Hong Kong	Ordinary HK\$200,000	100	Trading of sports products
Sports World (Pacific) Limited	British Virgin Islands	Ordinary US\$100	100	Inactive
Yanson Pte. Limited	Republic of Singapore	Ordinary S\$25,000	100	Inactive

\* The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meetings of the company or to participate in any distribution on winding up.

With the exception of Dragon Trading Limited, S.A.S. Investment Company Limited, S.A.S. Telecommunications Company Limited and Bold Technology Limited all the subsidiaries are indirectly held.